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Title: States may clash with tobacco over payments

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States and tobacco companies appear headed toward a legal showdown over more than \$1 billion the states say they're owed under a 1998 agreement.

This year's payment of \$6.5 billion is due April 17. The tobacco companies contend they should be able to reduce that by about \$1.2 billion, claiming the states didn't live up to their promise to require cigarette makers outside the settlement to put money into escrow for future legal obligations.

The big cigarette manufacturers say the issue should go to arbitration and that they should pay less until it is resolved.

Kentucky officials with the attorney general's office and the Agricultural Development Fund both said yesterday that budget projections anticipate a cut.

The state received \$112.2 million in the last fiscal year. That is expected to drop to \$91.3 million this fiscal year and \$88 million for 2006-07, according to budget projections. The 2007-08 payment is projected to increase to \$94 million.

The fund receives half of the state's payments to help farmers diversify away from tobacco.

Kentucky should further study a plan promoted by Gov. Ernie Fletcher, said Keith Rogers, chief executive of the development fund. That plan would have cigarette companies pay the state a \$4-per-carton fee on cigarettes sold in Kentucky to replace the lesser payments that it gets from the agreement

"The MSA (master settlement agreement) is not as stable a revenue stream as many had once thought it was," Rogers said.

Assistant Attorney General Michael Plumley said Kentucky can avoid the reductions if it shows it has enforced its law requiring nonparticipating cigarette makers to make escrow payments.

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